

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

April 17, 2006

8:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 8:30 a.m., Monday, April 17, 2006, in the TierOne Community Meeting Room at 1221 N Street, Lincoln, Nebraska.

The Board members were notified of this meeting by letter dated April 7, 2006. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday April 10, 2006. Mr. Peters chaired the meeting and Ms. Linder recorded the minutes.

MEMBERS PRESENT:

CHARLES PETERS, CHAIR
DENIS BLANK, VICE-CHAIR
ROGER REA
DALE KAHLA
MARK SHEPARD
GLENN ELWELL
JUDGE GLENN CAMERER
CAROL KONTOR, EX-OFFICIO

MEMBERS ABSENT:

RICHARD WASSINGER

NONMEMBERS PRESENT:

ANNA SULLIVAN

Director

JASON HAYES

Legislative Retirement Counsel

GARY BUSH

DAS - State Budget Administrator's Office

LESLIE GIBBENS

Union Bank & Trust

CHAD MELCHER

Union Bank & Trust

DAVE SLISHINSKY

Mellon Consultants

MARY JOCHIM

Sterling Financial Advisors

NEIL BATEMAN

Retired Teachers

HOWARD KENSINGER

Nebraska Supreme Court

HERB SCHIMEK

Nebraska State Education Assoc.

ANDRÉ MICK

Legislative Performance Audit Analyst

CINDY NICHOLS

Legislative Performance Audit Analyst

KRISTA DAVIS

State Auditor's Office

JOE SCHAEFER

Legal Counsel

JAN FOX

Training Supervisor

JANE HANSEN

Retirement Plan Supervisor

RANDY GERKE
Accounting and Finance Manager
TERESA ZULAUF
Internal Auditor

SHEILA LINDER
Administrative Assistant

Agenda Items 1 and 2 - Meeting Called to Order: Chairperson Peters called the April 17, 2006, Board Meeting to order at 8:35 a.m. Present at roll call: C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, and C. Kontor. Absent: R. Wassinger.

Excuse Board Members: Mr. Blank moved to approve the absence of Mr. Wassinger. Mr. Rea seconded the motion. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, and C. Peters. Against: None. Motion carried.

Agenda Item 3 - Approval of Minutes: Mr. Rea moved that the minutes of the March 23, 2006, Board Meeting be approved. Motion was seconded by Mr. Kahla. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, C. Peters, and D. Blank. Against: None. Motion carried.

Agenda Item 4 - Approval of Budget Status Report & March Retirement Report: Mr. Blank moved to approve the budget status report and the March Retirement Report. Motion was seconded by Mr. Shepard. Members voted as follows: For: D. Kahla, M. Shepard, G. Elwell, G. Camerer, C. Peters, D. Blank, and R. Rea. Against: None. Motion carried.

Agenda Item 5 - Continuation of Covansys Support Contract: Ms. Sullivan stated the Covansys maintenance and support contract is due to expire April 30. They are currently providing us with three FTE's for maintenance and support of the PIONEER system. We do have a proposal for May 1 to October 31 to drop the FTE's down to two. Covansys also submitted a proposal for an upgrade from Windows 2000 to Windows XP. We have asked NITC if we should consider this upgrade. The migration from Forte to Java is also being evaluated by NITC.

Mr. Rea moved to continue the maintenance and support contract with Covansys for six months. Sgt. Elwell seconded the motion. Mr. Peters asked if there were any options other than Microsoft. Several individuals concurred that using something other than Microsoft is not recommended. Mr. Shepard asked what the cost will be. The cost under the new contract will be \$32,000 per month down from \$46,000.

Roll call on the motion on the floor was as follows: For: M. Shepard, G. Elwell, G. Camerer, C. Peters, D. Blank, R. Rea, and D. Kahla. Against: None. Motion carried.

Agenda Item 6 - State & County Annual Cash Balance Actuarial Reports: Mr. Slishinsky provided a presentation on the State and County Annual Cash Balance Actuarial Report. A copy of the presentation can be obtained from NPERS.

The 2004 interest credit was 5.2% before the dividend and 8.0% after the dividend. The interest credit was 5.4% in 2005. The Board discussed granting a dividend of 2.6% to reach

the interest credit rate of 8.0% or to provide the greatest dividend possible while maintaining the 10% cushion required by statute.

Judge Camerer moved to issue a Cash Dividend to the State members at 4.2%, but limited by the fact that it does not invade the 10% cushion. Mr. Blank seconded the motion. Recommendation was made to amend the motion to include that the dividend will be set so the 10% cushion is maintained. Judge Camerer amended the motion to read that he moved that a State Cash Balance dividend be paid in an amount available while still preserving the 10% reserve mandated by law. Mr. Blank accepted the amended motion.

Roll call on the motion on the floor was as follows: For: G. Elwell, G. Camerer, C. Peters, D. Blank, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

Judge Camerer moved that a cash balance dividend be granted to County plan members in the amount to be determined by the actuary up to the maximum amount and still preserve the 10% reserve. Mr. Blank seconded the motion. Members voted as follows: For: G. Camerer, C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, and G. Elwell. Against: None. Motion carried.

Agenda Item 7 - State & County Annual ERBF Annual Actuarial Reports: Mr. Slishinsky reviewed the Equal Retirement Benefit Fund (ERBF) reports for the State and County plans for the fiscal year ending December 31, 2005. Mr. Slishinsky explained what the fund is, why it exists, and then reviewed the reports. Copies of the reports can be obtained from NPERS.

Mr. Rea moved to accept the State & County Cash Balance Actuarial Reports and the State & County Annual ERBF Annual Actuarial Reports. Mr. Shepard seconded the motion. Members voted as follows: For: C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, and G. Camerer. Against: None. Motion carried.

The Board took a break at 10:30 a.m. and reconvened at 10:38 a.m.

Agenda Item 8 - Legislative Update: Mr. Schaefer reported LB 366 (dealing with immediate participation in the retirement plan by State and County plan members and the flat 4.8% contribution rate for State plan members) was advanced by the Legislature by a 46 to 0 vote. The Governor vetoed the bill. Senator Stuhr brought a motion to override on April 13. The Legislature overrode the veto by the required 30 votes.

LB 1019 was passed by the Legislature. This bill includes a variety of technical changes. One significant provision was the change to a 30-year amortization period for any unfunded liabilities for the School, Judges, and Patrol plans.

Mr. Hayes prepared a prioritized listing of the interim studies before the Retirement Committee that Mr. Schaefer provided to the Board members.

Mr. Schaefer prepared a memo to Ms. Sullivan regarding LB 898 (the open meetings law) that was provided to the Board members. The bill will become law July 14, 2006.

Mr. Schaefer stated all motions to go into closed or executive session need to include the subject matter to be discussed during the executive session. The agenda will be specific

enough so people will have reasonable notice of the intent of the meeting. The reason necessitating the closed session will be commented on in the motion, recorded in the minutes, and restated by the presiding officer.

Mr. Schaefer noted that the final provision of the bill provides that members of the public would have the right to file suit against the public body for violations of the Open Meetings Act whether or not they objected to the perceived violation at the meeting.

Ms. Sullivan stated we make every attempt to provide in detail what will be discussed under the agenda items. It was noted that for Item 6 on today's Agenda, there is no mention of the fact that the dividend discussion would be held. There is a question if sufficient notice was provided for the dividend motion. It is advisable to place this item on the May Agenda with specific language so the vote can be taken.

Mr. Schaefer then reviewed the prioritized list of Interim Studies. LR 338 is an umbrella study that looks at all of the plans that are administered by the PERB. Mr. Hayes (who was in the audience) stated that in the past Mr. Slishinsky comes and talks about Defined Benefit (DB) actuarial reports. Mr. Hayes stated he thought this study was listed as the number one priority because DB funding issues have been top priority the last couple of years.

LR 339—General Principles of Sound Retirement Planning are to be updated every five years. Several members of the Retirement Committee are leaving, with only two Retirement Committee members remaining in the Legislature next year.

LR 340 is an interim study resolution to review actuarial assumptions used to perform the annual actuarial valuation for the retirement systems administered by the PERB. This is for informational and educational purposes. Ms. Sullivan noted that we will be due to have an experience study during which we take a look at all of our assumptions for the DB plans. The general actuarial contract comes due in 2007 and we will want to have the experience study completed prior to the end of the fiscal year in 2007. Ms. Kontor suggested that maybe the Board, as a part of this study, consider including amortization period for the cash balance plan similar to the DB plans.

LR 376 was introduced by Sen. Don Pederson. Mr. Hayes stated the reason this study was put as the fourth priority was because it affects the whole system, rather than one system by itself. He has not met with Sen. Pederson yet to define what this study is intended to reflect. The Chair makes the final determination on what the study will encompass, but it is appropriate to discuss with the senator that introduced the LR what was intended

LR 341 is a study to examine the treatment of compensation for purpose of calculating retirement benefits. Mr. Hayes stated the main focus of the study will be looking at the health care premiums and what should be counted as compensation and what should not be.

LR 342 is an interim study resolution to examine the purchasing power of the original benefit received at retirement for members in the school plan.

LR 417 will examine the retirement system in place for peace officers.

LR 343 comes from Sen. Bourne regarding the need for additional contribution to the School plan under the Class V School Employees' Retirement Act,

LR 356 was evidently introduced due to a constituent questioning mandatory participation in the plan. Mr. Hayes noted this LR is the last item on the Committee's priority list.

Judge Camerer asked Mr. Slishinsky, in light of the fact that the Board might revisit the issue of granting dividends, if a larger reserve would be prudent. Mr. Slishinsky stated it would be more prudent, but it is judgment on the part of those people that are making the decision.

Mr. Rea moved to receive the Legislative update. Sgt. Elwell seconded the motion. Members voted as follows: For: D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, and C. Peters. Against: None. Motion carried.

Agenda Item 9 - Investment Officer's Update: Ms. Kontor announced that last week the Legislature confirmed the appointment of Dave Bomberger as the new Investment Officer. He will begin his duties July 1st. Ms. Kontor will stay on with the Investment Council through the month of July.

Ms. Kontor noted that at the February PERB Meeting she stated for the calendar year ending December 31, 2005, the DB plans returned 6.6% for 2005. The annual report shows 7.0%. The number provided at the February meeting was revised by Ennis Knupp due to significant cash flows in the bond portfolios in December, because of change in investment strategy.

Mr. Blank moved to accept the Investment Officer's report. Mr. Kahla seconded the motion. Members voted as follows: For: R. Rea, D. Kahla, M. Shepard, G. Elwell, G. Camerer, C. Peters, and D. Blank. Against: None. Motion carried.

Agenda Item 10 - Director's Report: Ms. Sullivan reported we are working with Union Bank on the transition with the recordkeeping contract. Things are moving nicely as we prepare for transition from Ameritas to Union Bank.

The entrance conference for the State, County, and DCP audit has been held. Mr. Blank attended the conference on behalf of the Board's Audit Committee.

Hartford had originally been scheduled to present their annual report at today's meeting, but Mr. Robinson was unable to attend the meeting. We hope to receive the paper reports soon.

This month work was completed on the age-based funds that will be effective July 1st. By statute we are restricted to using the premix funds. Mary Jochim was contacted for her assistance. Staff looked at a number of possibilities and different alternatives. A recommendation was forwarded to Ms. Kontor for her input and review. Nothing is finalized at this time and more information will be provided at the May meeting.

The Investment Report for State and County members was held up until we knew whether LB 366 would be passed. The Report is being finalized and will be mailed to members soon.

A dividend notice has been prepared for the makeup dividend with final numbers to be calculated and posted for those entitled to the dividend.

A meeting was held on the 7% compensation cap with some school administrators on April 12th. Mr. Hayes, Mr. Schaefer, Mr. Gerke, and Ms. Sullivan attended the meeting. Work is continuing on this issue. Ms. Sullivan has been asked to be a presenter at the School Administrators days in Kearney in August.

She has also received a request to do a presentation for the Probation Administrators in Hastings on April 26th.

Ms. Sullivan asked for approval to attend the Annual NCTR Directors meeting June 14-17, 2006.

She provided an article from *Governing* magazine entitled "Plight of the Benefits." The article focuses only on those plans that are having difficulty in their funding and does not mention the many who are well-funded. She also provided a survey of Public Pension by the National Association of State Retirement Administrators.

Mr. Blank asked to have user groups input when the statements are developed through Union Bank. There is a subcommittee working on statements and member education.

Judge Camerer moved for approval of the Director's report and travel plans. Mr. Rea seconded the motion. Members voted as follows: For: D. Kahla, M. Shepard, G. Elwell, G. Camerer, C. Peters, D. Blank, and R. Rea. Against: None. Motion carried.

Agenda Item 11 - Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Agenda Item 12 - Chairperson's Comments: Mr. Peters reminded the Board members of the importance of attending meetings and conferences for educational purposes. He noted the NCTR Trustee workshop in July and the Annual NCTR Convention in October are both good options. Mr. Peters encouraged the Board members to attend one or both of these conferences.

Mr. Peters stated he talked to Cindy Janssen this past week. The auditor's report has indicated that some how NPERS was guilty when reports were returned to NPERS by employers that contained errors. These errors were not made by NPERS but were received by NPERS.

Agenda Item 13 - Future Meetings and Agendas: The next Board Meeting will be held on Monday, May15, 2006, in the TierOne Community Meeting Room at 1221 N Street.

In May we will discuss the Board Retreat and have the Education Services update. We hope to have the Deferred Comp report by the May Meeting and plan to also have the annuity contract for the deferred comp. The dividend rate based on information from the actuary will be affirmed or approved at the May meeting also.

Agenda Item 14 and 15 - Executive Session: At 12:10 p.m., Judge Camerer moved that the Board exit Regular Session and convene in Executive Session for the purpose of

discussing the disability applications from plan members and legal matters, Retirement No. 113946 in the School Plan and Retirement No. 120291 in the School Plan, and Legal update of Nesbitt v. NPERS, Case No. CI06-931 in the Lancaster County District Court. Sgt. Elwell seconded the motion. Members voted as follows: For: M. Shepard, G. Elwell, G. Camerer, C. Peters, D. Blank, R. Rea, and D. Kahla. Against: None. Motion carried.

At 12:55 p.m., Mr. Rea moved that the Board exit Executive Session and reconvene in Regular Session. Motion was seconded by Mr. Blank. Members voted as follows: For: G. Elwell, G. Camerer, C. Peters, D. Blank, R. Rea, D. Kahla, and M. Shepard. Against: None. Motion carried.

Mr. Kahla moved to approve the disability applications for Retirement No. 113946 and 120291. Mr. Rea seconded the motion. Members voted as follows: For: G. Camerer, C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, and G. Elwell. Against: None. Motion carried.

Agenda Item 14 - Adjournment: Mr. Blank moved that meeting adjourn. Motion was seconded by Sgt. Elwell. Members voted as follows: For: C. Peters, D. Blank, R. Rea, D. Kahla, M. Shepard, G. Elwell, and G. Camerer. Against: None. Motion carried.

The meeting adjourned at 12.57 p.m.

Anna J. Sullivan
Director